

ORIGINAL

NEW APPLICATION



BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

ROBERT "BOB" BURNS - Chairman
BOYD DUNN
SANDRA D. KENNEDY
JUSTIN OLSON
LEA MÁRQUEZ PETERSON

JUN 25 2019

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In the matter of:

GRAND OAK ENTERPRISES, L.L.C., an
Arizona limited liability company,

TARLETON J. KARRY, CRD #2862611, an
unmarried man,

Respondents.

DOCKET NO. S-21077A-19-0137

**NOTICE OF OPPORTUNITY FOR HEARING
REGARDING PROPOSED ORDER TO CEASE
AND DESIST, ORDER FOR RESTITUTION,
ORDER FOR ADMINISTRATIVE
PENALTIES, AND ORDER FOR OTHER
AFFIRMATIVE ACTION**

NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that respondents Grand Oak Enterprises, L.L.C. and Tarleton J. Karry have engaged in acts, practices, and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

The Division also alleges that Karry is a person controlling Grand Oak Enterprises within the meaning of A.R.S. § 44-1999(B), so that he is jointly and severally liable under A.R.S. § 44-1999(B) to the same extent as the entity for its violations of the antifraud provisions of the Securities Act.

I.

JURISDICTION

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

II.

RESPONDENTS

2. Karry resided in Arizona during the time relevant to this Notice, i.e. 2015 to mid-2018.

1 more than likely go down soon, that she needed to get some of her money out of the stock market
2 and diversify her portfolio, and that investing in his company was a great option to do that.

3 11. Karry presented his company as preferable to and less risky than investing in the stock
4 market. Karry told KU that his company was a great option for diversifying her portfolio as his
5 company was starting to take off and would require him to focus his efforts on it. Karry failed to
6 inform KU that his company, Grand Oak Enterprises, had only been in operation since 2016 and that
7 its "construction" business was to consist of buying and "flipping" homes, primarily on the east coast,
8 where Karry had little to no experience buying, remodeling, and selling homes. Additionally, Karry
9 failed to discuss any risks of investing with him including failing to disclose the risks of investing in
10 a start-up company.

11 12. Based on these representations, KU invested a total of \$500,000 with Karry and Grand
12 Oak through the following four investments:

13 a) On June 27, 2016, KU invested \$100,000 with Karry. In exchange for her
14 investment, KU received a document titled "Promissory Note – Installment Payments with Interest."
15 The note lists Karry as the borrower and KU as the lender. Under the terms of the note, KU was
16 supposed to receive one installment payment on January 16, 2017, "of not less than \$100,000.00."

17 b) On September 12, 2016, KU invested \$100,000 with Karry. She again received
18 a document titled "Promissory Note – Installment Payments with Interest." The note lists Karry as
19 the borrower and KU as the lender. Under the terms of the note, KU was to receive payment on
20 September 26, 2017. In this note, however, the amount of money that is to be paid back is listed as
21 "N/A."

22 c) On October 26, 2016, KU invested \$100,000 with Karry. In exchange for her
23 investment, KU received a document titled "Promissory Note – Installment Payments with Interest."
24 The note lists Karry as the borrower and KU as the lender. Under the terms of the note, KU was
25 supposed to receive one installment payment on November 9, 2017, "of not less than \$100,000.00."

1 d) On February 10, 2017, KU invested \$200,000 with Karry and Grand Oak
2 Enterprises. For this investment, KU received a document titled "Loan Agreement" that lists KU as
3 the lender and Grand Oak Enterprises as the borrower. Under this agreement, Grand Oak was
4 supposed to pay KU quarterly interest payments of \$5,250 and a balloon payment on February 22,
5 2018.

6 13. Karry paid KU \$10,000 in cash in August 2016, \$8,000 in cash in October 2016,
7 \$8,000 in cash in November 2016; Karry described these payments as interest payments on the first
8 three notes. Karry made the interest payments prior to soliciting the latter three investments described
9 in the preceding paragraph. In February 2017, Karry transferred \$50,000 to KU's bank account as
10 payment of principal on the June 27, 2016 note. For the final note from Grand Oak Enterprises, Karry
11 delivered four checks to KU each in the amount of \$5,250 to KU from April 2017 through January
12 2018. KU did not receive any other payments.

13 **IV.**

14 **VIOLATION OF A.R.S. § 44-1841**

15 **(Offer or Sale of Unregistered Securities)**

16 14. From on or about June 2016 through February 2017, Respondents offered or sold
17 securities in the form of notes and investment contracts within or from Arizona.

18 15. The securities referred to above were not registered pursuant to Articles 6 or 7 of the
19 Securities Act.

20 16. This conduct violates A.R.S. § 44-1841.

21 **V.**

22 **VIOLATION OF A.R.S. § 44-1842**

23 **(Transactions by Unregistered Dealers or Salesmen)**

24 17. Respondents offered or sold securities in the form of notes within or from Arizona while
25 not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

26 18. This conduct violates A.R.S. § 44-1842.

VI.**VIOLATION OF A.R.S. § 44-1991****(Fraud in Connection with the Offer or Sale of Securities)**

19. In connection with the offer or sale of securities within or from Arizona, Respondents directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts that were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; or (iii) engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon offerees and investors. Respondents' conduct includes, but is not limited to, the following:

a) Failing to disclose to KU that Karry had been terminated from Ameriprise and that, after his termination, he was no longer registered to sell securities in Arizona.

b) Representing to KU that Karry's company was taking off and was a great option for KU to diversify her investment portfolio when the stock market was likely to go down, without disclosing to KU the risks associated with investing a private, start-up company with little operating history that was engaged in a business and in a part of the country where Karry had little to no experience.

20. This conduct violates A.R.S. § 44-1991.

VII.**CONTROL PERSON LIABILITY PURSUANT TO A.R.S. § 44-1999**

21. From at least October 19, 2016 through 2018, Karry directly or indirectly controlled Grand Oak Enterprises within the meaning of A.R.S. § 44-1999. Therefore, he is jointly and severally liable to the same extent as Grand Oak Enterprises for its violations of A.R.S. § 44-1991.

VIII.**REQUESTED RELIEF**

The Division requests that the Commission grant the following relief:

1. Order Respondents to permanently cease and desist from violating the Securities Act, pursuant to A.R.S. § 44-2032;

2. Order Respondents to take affirmative action to correct the conditions resulting from Respondents' acts, practices, or transactions, including a requirement to make restitution pursuant to A.R.S. § 44-2032;

3. Order Respondents to pay the state of Arizona administrative penalties of up to \$5,000 for each violation of the Securities Act, pursuant to A.R.S. § 44-2036; and

4. Order any other relief that the Commission deems appropriate.

IX.

HEARING OPPORTUNITY

Each respondent may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-306. **If a respondent requests a hearing, the requesting respondent must also answer this Notice.** A request for hearing must be in writing and received by the Commission within 10 business days after service of this Notice of Opportunity for Hearing. The requesting respondent must deliver or mail the request to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007. Filing instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's website at <http://www.azcc.gov/divisions/hearings/docket.asp>.

If a request for a hearing is timely made, the Commission shall schedule the hearing to begin 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. If a request for a hearing is not timely made the Commission may, without a hearing, enter an order granting the relief requested by the Division in this Notice of Opportunity for Hearing.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Kacie Cannon, ADA Coordinator, voice phone number (602) 542-3931, e-mail kcannon@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation. Additional information about the administrative action procedure may be found at <http://www.azcc.gov/divisions/securities/enforcement/AdministrativeProcedure.asp>

X.**ANSWER REQUIREMENT**

Pursuant to A.A.C. R14-4-305, if a respondent requests a hearing, the requesting respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the date of service of this Notice. Filing instructions may be obtained from Docket Control by calling (602)542-3477 or on the Commission's website at <http://www.azcc.gov/divisions/hearings/docket.asp>.

Additionally, the answering respondent must serve the Answer upon the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix, Arizona, 85007, addressed to Ryan Millecam.

The Answer shall contain an admission or denial of each allegation in this Notice and the original signature of the answering respondent or respondent's attorney. A statement of a lack of sufficient knowledge or information shall be considered a denial of an allegation. An allegation not denied shall be considered admitted.

When the answering respondent intends in good faith to deny only a part or a qualification of an allegation, the respondent shall specify that part or qualification of the allegation and shall admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

The officer presiding over the hearing may grant relief from the requirement to file an Answer for good cause shown.

Dated this 25th day of June, 2019.



Mark Dinell
Director of Securities